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Perspectives on the Pilot Supply Problem

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PERSPECTIVES ON THE PILOT SUPPLY PROBLEM

AUGUST 15, 2017

Geoffrey C. Murray, Ph.D.
Aerospace Sector Leader

What's Oliver Wyman? Why are we here?

- Oliver Wyman is a consulting firm—we help companies anticipate and solve complex challenges
 - Very strong focus on aviation and aerospace
 - Experience working with most major airlines, OEMs, suppliers and sponsors, including many here
- We believe the pilot shortage is real and represents a “perfect storm” in the battle for talent
 - Once aligned objectives and priorities among various aviation entities are now competing
 - Evolving regulatory environment
 - Decreasing emphasis on manned military aviation
 - Decreasing appeal of professional aviation
- We've recently completed two projects for major U.S. airlines addressing these challenges, so we represent a qualified opinion

The “pilot pipeline” is dramatically changing, shifting demographic of same quality



10 years ago quality pilot supply was abundant

- Typically an ATP rated pilot with ~15 years experience in his/her late 30s
- Successful in college as a thought leader with a self-developed passion for aviation
- Willing to endure long-road to a major on the heels of economic recessions



Today there is decreasing interest in aviation

- Military now only account for ~30% of major airline new hires
- Young professionals increasingly value work/life balance when considering career opportunities, favoring other industries
- Graduates of professional pilot-degree decreased ~23 percent from 2001 - 2012



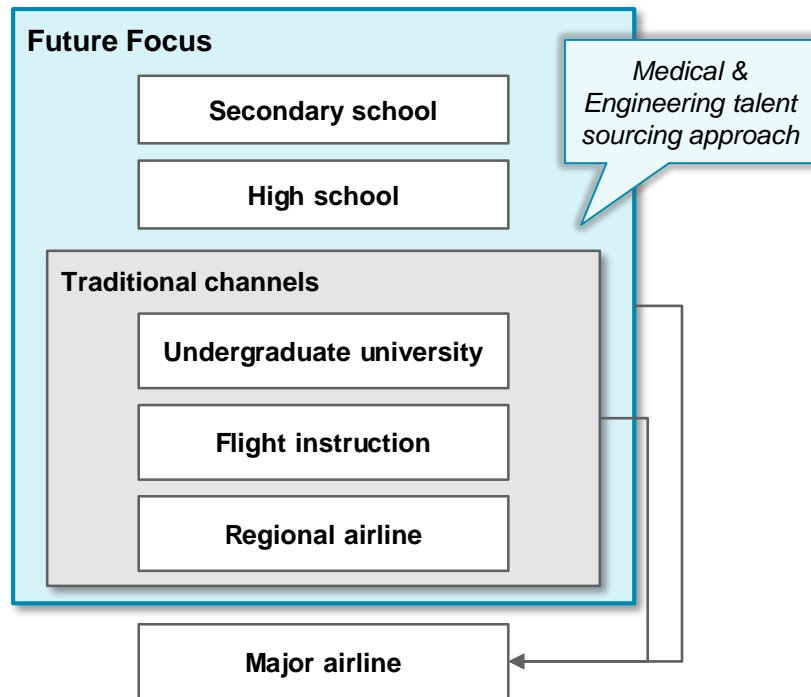
Radically new recruitment and training programs are needed

- Increased focus on upstream student recruitment to aviation
- Aligned incentives among industry stakeholders
- Reduced training and professional discontinuities
- More attractive long-term student value proposition and quality of life offering

Source: ALPA, 2014 GAO report, 2016 Deloitte millennial survey

Quick adoption initiatives include focusing recruiting efforts upstream and aligning the incentives of different industry stakeholders

Upstream recruitment

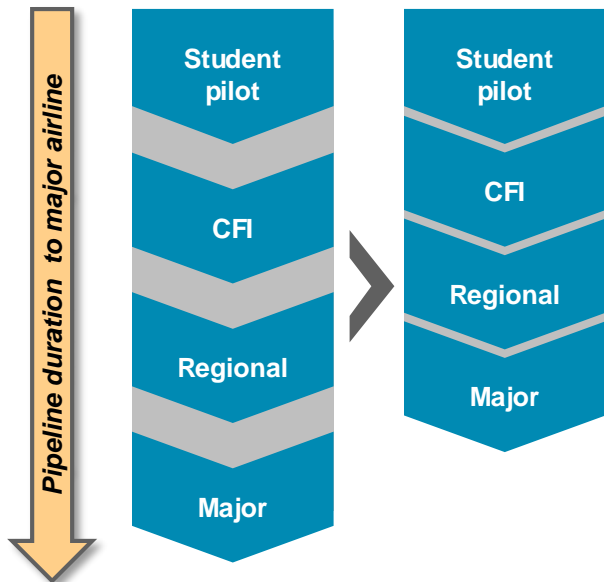



Aligned incentives

Entities	Traditional Approach	Evolving Approach
Mainline airlines	Passive, maintain adequate pilot supply with minimal recruiting costs	Actively seek out industry partnerships to ensure stream of quality applicants
Regional airlines	Passive, focus on low overall pilot labor costs	Offer more appealing value proposition to ensure long-term pilot staffing viability
Flight schools	Passive, rely on deep pool of CFIs to facilitate lower-cost training	Protect supply of CFIs, provide vehicles for smaller cash outlay
OEMs	Maintain contracted deliveries and facilitate training	Increased collaboration to develop data driven training mechanisms
Labor unions	Maximize pilot pay and benefits, seniority rules	Offer better quality of life initiatives for junior pilots
Regulator	Manage risk with increased training requirements and minimums	Refined ratings structure to balance risk and industry demand

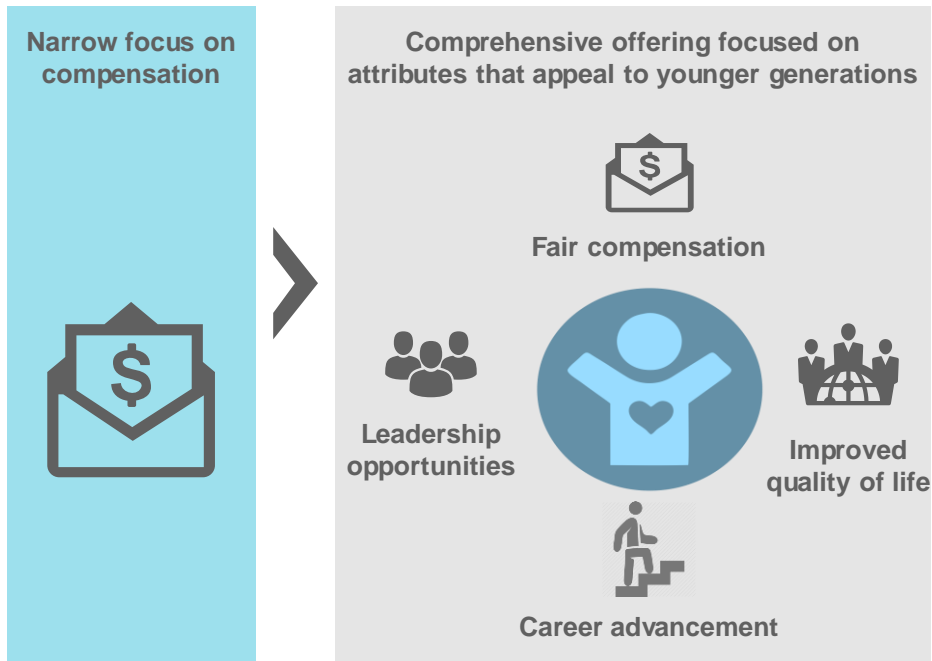
More complex adoption initiatives require industry wide collaboration to improve the career value proposition for aspiring pilots

Reduced continuities



 Discontinuities

Value proposition



An immediate opportunity already exists to create a compelling and differentiated value proposition



Career advancement

- Guarantee flow from regionals to majors
- Expand flow-through opportunities to begin in flight training



Stable quality of life

- Incorporate gateway out-basing and/or introduce smaller bases
- Augment seniority bidding, complement preferential bidding



Leadership opportunities

- Accelerated promotion to Captain
- Create new opportunities to serve the enterprise outside of flying



Competitive compensation

- Complement hourly rate, equipment and seat-based pay structure
- Incorporate models that complement flight-based pay

Key takeaways

- The pilot shortage is well-documented but remains only reasonably well understood
- Investment in three key initiatives can mitigate risk to mainline carriers and the industry as a whole
 - **Increased focus on upstream student** recruitment to aviation
 - **Reduced discontinuity** between phases of flight training
 - More attractive **long-term value proposition**
- An **industry-wide strategy of collective solutions (many which already exist)** among multiple parties is necessary

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